

Message Text

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ORIGIN NEA-12

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R 080104Z DEC 73

FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV

C O N F I D E N T I A L STATE 240748

E.O. 11652: GDS

TAGS: EAID, IS

SU0JECT: ISRAELI REQUEST FOR ECONOMIC ASSISTANCE

REF: (A) TEL AVIV 9274 AND (B) STATE 220956

1. SUMMARY: ISRAELI EMBASSY ECONOMIC MINISTER SHER MET WITH DEPASSTSEC ATHERTON DEC 3 AND CALLED ON UNDERSEC DONALDSON DEC 6 TO PRESENT PAPER PROVIDING FORECASTS FOR ISRAEL'S 1974 BALANCE OF PAYMENTS, FOREIGN DEBT AND FOREIGN EXCHANGE RESERVES POSITION AS JUSTIFICATION FOR FOLLOWING U.S. AID AMOUNTS: (A) IN FY 74 ISRAEL NEEDS 300 MILLION DOLS FMS CREDITS AND 2.2 BILLION DOLS IN EMERGENCY SECURITY ASSISTANCE AS GRANT; AND (B) IN FY 75 ISRAEL WILL NEED 300 MILLION DOLS FMS CREDITS, 500 MILLION DOLS SUPPORTING ASSISTANCE GRANT AND 150 MILLION DOLS PL 480 TITLE I. SHER DID NOT PRESS FOR PL 480 ASSISTANCE IN FY 74. SHER NOTED ISRAEL'S RISING FOREIGN EXCHANGE RESERVES BUT EXPLAINED HIGH RESERVES NECESSARY IN VIEW RISING IMPORT PRICES DUE TO INFLATION AND FOR ISRAEL TO BE SELF-RELIANT IN MEETING EMERGENCY SITUATIONS. UNOFFICIALLY, SHER FLOATED IDEA OF CONFIDENTIAL

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ME REGIONAL DEVELOPMENT COPERATION PROGRAM AS PRODUCT OF OR PRELUDE TO ME PEACE. SHER HAS ALSO CALLED ON REPRESENTATIVES OF AID, OMB, AND TREASURY. END SUMMARY.

2. EMBASSY OF ISRAEL ECONOMIC MINISTER SHER CALLED ON UNDERSEC DONALDSON DEC 6 TO BRIEF LATTER ON ISRAELI ECONOMIC SITUATION AND PROVIDE ECONOMIC BASIS FOR CONTINUING U.S.

ASSISTANCE. SHER POINTED OUT THAT WHILE ISRAEL'S ECONOMY WAS STRONG AND GROWING RAPIDLY AT 8-9 PER CENT ANNUALLY BEFORE THE WAR, IN FACT ISRAEL WAS NOT ACTUALLY SELF-SUPPORTING DUE TO HIGH RATE DEFENSE SPENDING (ABOUT 20 PER CENT OF GNP OR ONE-THIRD OF GOI ANNUAL BUDGET) AND COST OF ABSORBING NEW IMMIGRANTS (40,000 DOLS PER FAMILY) WHICH NECESSITATED AID FROM ABROAD. SHER SAID ISRAEL'S TOTAL EXTERNAL DEBT NOW ABOUT 5 BILLION DOLS, NEARLY EQUAL TWO YEARS EXPORTS. OCTOBER 1973 WAR WAS MORE COSTLY THAN ANY OF ISRAEL'S PREVIOUS WARS, INCLUDING WAR OF ATTRITION BECAUSE IT WAS LONG, INVOLVED MUCH EXPENSIVE SOPHISTICATED WEAPONRY AND ENDED INCONCLUSIVELY WITH NEED FOR CONTINUED HIGH RATE MOBILIZATION OF ARMY RESERVES WITH CONCOM-ITANT DRAIN ON ECONOMY. (SHER TOLD DEPASSTSEC ATHERTON DECEMBER 3 MOBILIZATION WAS 10-15 PERCENT.) SHER NOTED ISRAEL EXPECTED WAR AND MOBILIZATION WOULD RESULT IN GNP LOSS OF 5 PERCENT IN 1973 AND 10 PERCENT IN 1974. ISRAEL'S ANNUAL GROWTH RATE NOT SAME AS PRE-WAR (8-9 PERCENT) AND ISRAEL MUST REMAIN MILITARILY AND ECONOMICALLY STRONG FOR PEACE TO BE DURABLE. FAILURE FOR ISRAEL TO GROW AS BEFORE, WHILE ARABS DEVELOP, WILL ENCOURAGE ISRAEL'S NEIGHBORS TO WAIT FOR FUTURE TIME WHEN THEY CAN DESTROY ISRAEL.

3. SHER SAID ISRAEL WOULD CONTINUE NEEDING U.S. ASSISTANCE FOR AT LEAST YEAR OR TWO (A) TO PAY FOR MILITARY PURCHASES AND (B) TO ENABLE RESERVES TO BUILD UP SUFFICIENTLY TO SERVICE LARGER FOREIGN DEBT AND PROVIDE COVER FOR HIGHER PRICED IMPORTS. ISRAEL'S FOREIGN EXCHANGE RESERVES WILL BE 1.8 BILLION DOLS END 1973 BUT WILL DECLINE IN 1974 DUE TO DECLINE IN SALE ISRAEL BONDS AND UJA CONTRIBUTIONS WHICH ARE ADVERSELY AFFECTED BY DECREASE OF PRICES ON NEW YORK STOCK MARKET AND
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U.S. PRIME INTEREST RATE INCREASE. RESERVES WILL BE INSUFFICIENT TO COVER ONE-THIRD OF ANNUAL IMPORTS, WHICH ISRAEL CONSIDERS ESSENTIAL RATIO TO ENABLE IT TO FACE ANY CRISIS ALON SHOULD BIG TWO POWERS BE PREOCCUPIED WITH OTHER PROBLEMS. RESERVES MUST GROW TO KEEP UP WITH RISING IMPORT PRICES WHICH MAY RISE EVEN HIGHER AS RESULT OF ENERGY CRISIS. INFLATION IN ISRAEL WAS 16 PERCENT FOR FIRST 9 MONTHS 1973.

4. DESCRIBING ISRAEL'S NEED FOR U.S. AID SHER NOTED CY 1973 PL 480 AGREEMENT NOT COMPLETELY FULFILLED BY U.S. AND PROBABILITY NO PL 480 IN CY-74 DUE TO GRAIN SHORTAGES. SHER SAID HE HEARD SOME PL 480 MIGHT BE MADE AVAILABLE IN

CY-74 IF STATE DEPARTMENT REQUESTED IT ON POLITICAL GROUNDS BUT DID NOT STRESS THIS FURTHER. SHER HOPED ISRAEL WOULD RECEIVE ITS REQUEST FOR 50 MILLION DOLS IN

PL 480 FOR CY-75. HE ADDED THAT ALTHOUGH 2.2 BILLION DOLS EMERGENCY MILITARY ASSISTANCE MIGHT BE FULFILLED DURING 1973/4 ISRAEL STILL NEEDED 300 MILLION DOLS FMS CREDITS IN FY-75 IN ADDITION TO 300 MILLION DOLS FMS AGREED TO FOR FY-74. SUPPORTING ASSISTANCE GRANT OF 500 MILLION DOLS IS ALSO NEEDED IN FY-75 TO COVER ISRAEL'S TRADE DEFICIT DUE TO HEAVY DEFENSE SPENDING.

5. SHER SAID THAT FOR ISRAEL TO PREPARE FOR PEACE SITUATION WITH REDUCED DEFENSE SPENDING ISRAEL MUST ENTER ERA OF MORE RAPID DEVELOPMENT TO PROVIDE STABILITY AND BASIS FOR ECONOMIC COOPERATION IN M.E. SHER ASKED FOR GENERAL OUTLINE OF U.S. IDEAS OR PLANS FOR FUTURE OF M.E. AREA DEVELOPMENT. IN REQUEST FOR 1975 AID ISRAEL WILL ATTEMPT FOCUS ON SPECIFIC FUTURE PLANS FOR REGIONAL COOPERATION. SHER EMPHASIZED HE DID NOT HAVE IN MIND SUCH PROGRAMS AS OLD JOHNSTON PLAN BUT REAL ECONOMIC COOPERATION AND FULL COMMERCIAL RELATIONS BETWEEN NATIONS AND ASKED IF HIS IDEAS WERE PREMATURE. SHER WAS TOLD THAT HIS QUESTION WAS PREMATURE, U.S. PRESENTLY HAS NO SUCH PLANS WHICH WOULD DEPEND UPON HOW M.E. SITUATION DEVELOPS. IF GOODWILL AND PROSPECTS FOR REGIONAL COOPERATION DEVELOP, SUCH PLAN WOULD PROBABLY RECEIVE MUCH OF OUR ATTENTION. U.S. PLAYS ROLE IN DEVELOPMENT OF OTHER AREAS AND WOULD
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PROBABLY LOOK TO ROLE IT COULD PLAY IN M.E. IN MEETING WITH DEPASSTSEC ATHERTON SHER THOUGHT M.E. REGIONAL ECONOMIC PERHAPS AS EARLY OFFSHOOT OF GENEVA PEACE CONFERENCE.

6. SHER PRESENTED UNDER SECRETARY DONALDSON AND DEPUTY ASSTSEC ATHERTON PAPER DATED NOV. 29 PROVIDING PROVISIONAL DATA ON ISRAELI ECONOMY 193 AND 1974. SHER REGRETTED INABILITY PROVIDE 1975 FORECAST NOW. PAPER WAS ALSO PROVIDED TO REPRESENTATIVES OF AID, OMB, TREASURY AND MEMBERS OF CONGRESS. SUMMARY FOLLOWS:

A. SINCE OCT. 6 GOI HAS REQUESTED U.S. SUPPLY 3.2 BILLION DOLS IN DEFENSE ITEMS OF WHICH 1 BILLION DOLS DELIVERED. REQUEST FOR 3.2 BILLION DOLS DOES NOT INCLUDE SCHEDULED PURCHASES OF 500 MILLION DOLS ALREADY CONTRACTED FOR, BUT NOT YET SUPPLIED. FOR THESE PURCHASES REGULAR FMS CREDITS HAVE BEEN REQUESTED AND IN PART ALREADY CONTRACTED.

B. COST OF THE WAR. TOTAL ADDITIONAL MILITARY COSTS ARE IL 25,350 MILLION-(INCLUDING IL 10,800 MILLION IN PURCHASES ABROAD, EXPENDITURES IN ISRAEL UNDER DEFENSE BUDGET OF IL 3,000 MILLION IN 1973/74 AND IL 4,500 MILLION

IN 1974/75, AND SUPPLEMENTAL PAY OF RESERVES IL 1,050 MILLION). TOTAL REDUCTION IN GNP OF IL 6,000 MILLION (OCTOBER-DECEMBER 1973 DOWN IL 2,000 MILLION AND 1974 DOWN IL 4,000).

C. AS A RESULT OF THE WAR, ISRAEL'S BALANCE OF PAYMENTS ESTIMATES FOR 1973 AND 1974 HAVE DETIORATED CONSIDERABLY. EVEN IF THE ENTIRE 2.2 BILLION DOLS WILL BE EXTENDED ON GRANT ER TERMS, A MAJOR GAP IN THE BALANCE OF PAYMENTS AND A CONSEQUENT DRAW-DOWN OF VITAL FOREIGN EXCHANGE RESERVES WILL OCCUR.

D. ISRAEL'S FOREIGN EXCHANGE DEBT WAS EXTRAORDINARILY HIGH AT THE END OF 1972. PER CAPITA IT IS THE HIGHEST IN THE WORLD. EVEN IF THE ENTIRE 2.2 BILLION DOLS EMERGENCY ASSISTANCE WERE EXTENDED UPON GRANT TERMS, THE EXTERNAL DEBT WOULD AMOUNT TO 5.5 BULLION DOLS AT THE END OF 1974, AND IF ALL U.S. DEFENSE SHIPMENTS WERE COVERED BY MILITARY SALES CREDITS, IT WOULD AMOUNT TO CONFIDENTIAL

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7.7 BILLION DOLS, 2,248 DOLS PER CAPITA. ANNUAL DEBT SERVICE, WHICH WOULD OTHERWISE BE SOME 850 MILLION DOLS IN 1974, WOULD THEN INCREASE SUBSTANTIALLY.

E. ISRAELI BALANCE OF PAYMENTS IN MILLIONS OF DOLLARS

ESTIMATE	1973	1974
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TOTAL		
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